



Report of Independent Auditors

Punongbayan & Araullo

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The Board of Directors and the Stockholders

Dominion Holdings, Inc.

(Formerly: BDO Leasing and Finance, Inc.)

(A Subsidiary of BDO Unibank, Inc.)

39th Floor, BDO Corporate Center Ortigas

12 ADB Avenue, Ortigas Center

Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Dominion Holdings, Inc., (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2023, and the notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-1S (Definitive Information Statement), SEC Form 17-A, and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 12 to the financial statements, the Company presented the supplementary information required by the Bureau of Internal Revenue (BIR) under the Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. Such supplementary information required by the BIR is the responsibility of management and is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner in the audit resulting in this independent auditors' report is Yusoph A. Maute.

PUNONGBAYAN & ARAULLO


By: **Yusoph A. Maute**
Partner

CPA Reg. No. 0140306
TIN 415-417-641
PTR No. 10076145, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 140306-SEC (until financial period 2026)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002551-046-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 21, 2024

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes		2023		2022
<u>ASSETS</u>					
CASH AND CASH EQUIVALENTS	6	P	7,785,645	P	14,733,014
MONEY MARKET PLACEMENTS - Net	6		3,941,346,704		5,955,382,215
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)	7		2,306,560,507		-
OTHER ASSETS - Net			127,392,572		127,386,647
TOTAL ASSETS		P	6,383,085,428	P	6,097,501,876
<u>LIABILITIES AND EQUITY</u>					
ACCOUNTS PAYABLE AND OTHER LIABILITIES	8	P	10,655,103	P	16,106,398
DEFERRED TAX LIABILITIES - Net	12		2,530,802		-
Total Liabilities			13,185,905		16,106,398
CAPITAL STOCK	9		2,225,169,030		2,225,169,030
ADDITIONAL PAID-IN CAPITAL			571,095,676		571,095,676
TREASURY SHARES	9	(81,776,628)	(81,776,628)
NET UNREALIZED FAIR VALUE GAINS ON FINANCIAL ASSETS AT FVOCI			11,222,813		-
RETAINED EARNINGS	9		3,644,188,632		3,366,907,400
Total Equity			6,369,899,523		6,081,395,478
TOTAL LIABILITIES AND EQUITY		P	6,383,085,428	P	6,097,501,876

See Notes to Financial Statements.

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2023	2022	2021
INCOME				
Interests and discounts	6, 7, 11	P 342,674,559	P 63,246,030	P 30,666
Gain on redemption of unit investment trust fund (UITF)	7	1,048,999	62,625,034	-
Unrealized fair value gain on UITF	7	-	-	54,997,429
Other income - net	10	-	954,650	2,069,009
		<u>343,723,558</u>	<u>126,825,714</u>	<u>57,097,104</u>
OPERATING COSTS AND EXPENSES				
Impairment and credit losses	6, 7	6,135,361	2,799,676	-
Trust fees	11	3,591,034	-	-
Director's fees		2,182,222	2,933,333	3,011,111
Taxes and licenses	12	1,630,124	7,665,995	11,388,962
Professional fees		1,068,673	245,456	164,682
Litigation/assets acquired expenses		294,100	-	422,292
Interest expense		-	3,608,580	-
Occupancy and equipment-related expenses		-	794,204	68,000
Other expenses	11	3,211,638	14,331,494	4,200,567
		<u>18,113,152</u>	<u>32,378,738</u>	<u>19,255,614</u>
PROFIT BEFORE TAX		325,610,406	94,446,976	37,841,490
TAX INCOME (EXPENSE)	12	(48,329,174)	(25,183,760)	5,699,928
NET PROFIT		<u>P 277,281,232</u>	<u>P 69,263,216</u>	<u>P 43,541,418</u>
Basic and Diluted Earnings Per Share	13	<u>P 0.13</u>	<u>P 0.03</u>	<u>P 0.02</u>

See Notes to Financial Statements.

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2023	2022	2021
NET PROFIT		P 277,281,232	P 69,263,216	P 43,541,418
OTHER COMPREHENSIVE INCOME				
Item that will be reclassified subsequently to profit or loss				
Net unrealized fair value gains on debt investments at FVOCI	7	10,123,209	-	-
Impairment losses on debt investments at FVOCI	7	3,630,406	-	-
Tax expense	12	(2,530,802)	-	-
		11,222,813	-	-
TOTAL COMPREHENSIVE INCOME		P 288,504,045	P 69,263,216	P 43,541,418

See Notes to Financial Statements.

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Shares, At Cost</u>	<u>Net Unrealized Fair Value Gains on FVOCI</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance at January 1, 2023	P 2,225,169,030	P 571,095,676	(P 81,776,628)	P -	P 3,366,907,400	P 6,081,395,478
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,222,813</u>	<u>277,281,232</u>	<u>288,504,045</u>
Balance at December 31, 2023	<u>P 2,225,169,030</u>	<u>P 571,095,676</u>	<u>(P 81,776,628)</u>	<u>P 11,222,813</u>	<u>P 3,644,188,632</u>	<u>P 6,369,899,523</u>
Balance at January 1, 2022	P 2,225,169,030	P 571,095,676	(P 81,776,628)	P -	P 3,297,644,184	P 6,012,132,262
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,263,216</u>	<u>69,263,216</u>
Balance at December 31, 2022	<u>P 2,225,169,030</u>	<u>P 571,095,676</u>	<u>(P 81,776,628)</u>	<u>P -</u>	<u>P 3,366,907,400</u>	<u>P 6,081,395,478</u>
Balance at January 1, 2021	P 2,225,169,030	P 571,095,676	(P 81,776,628)	P -	P 3,254,102,766	P 5,968,590,844
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,541,418</u>	<u>43,541,418</u>
Balance at December 31, 2021	<u>P 2,225,169,030</u>	<u>P 571,095,676</u>	<u>(P 81,776,628)</u>	<u>P -</u>	<u>P 3,297,644,184</u>	<u>P 6,012,132,262</u>

See Notes to Financial Statements.

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 325,610,406	P 94,446,976	P 37,841,490
Adjustments for:				
Interests and discounts	6, 7, 11	(342,674,559)	(63,246,030)	(30,666)
Impairment and credit losses	6, 7	6,135,361	2,799,676	-
Operating loss before changes in operating assets and liabilities		(10,928,792)	34,000,622	37,810,824
Decrease (increase) in financial assets at fair value through profit or loss		-	5,877,689,641	(124,997,429)
Decrease (increase) in other assets		(56,045)	(7)	5,727,784
Increase (decrease) in accounts payable and other liabilities		(5,451,295)	7,948,775	(19,347,128)
Cash generated from (used in) operations		(16,436,132)	5,919,639,031	(100,805,949)
Interest received		250,098,951	12,728,422	30,666
Cash paid for final taxes		(48,329,174)	(25,174,213)	(5,574)
Net Cash From (Used in) Operating Activities		185,333,645	5,907,193,240	(100,780,857)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of financial assets at fair value through other comprehensive income (FVOCI)	7	(6,006,005,297)	-	-
Maturities of short-term placements	6	5,907,664,283	-	-
Placement in short-term placements	6	(3,915,550,000)	(5,907,664,283)	-
Proceeds from redemption of financial assets at FVOCI	7	3,821,610,000	-	-
Net Cash Used in Investing Activities		(192,281,014)	(5,907,664,283)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,947,369)	(471,043)	(100,780,857)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		14,733,014	15,204,057	115,984,914
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 7,785,645	P 14,733,014	P 15,204,057

See Notes to Financial Statements.

DOMINION HOLDINGS, INC.
(Formerly: BDO Leasing and Finance, Inc.)
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Corporate Information

Dominion Holdings, Inc. (DHI or the Company), formerly BDO Leasing and Finance, Inc. (BDOLF), is a domestic corporation incorporated in 1981. Its shares were listed in the Philippine Stock Exchange (PSE) on January 6, 1997.

On January 31, 2020, the Board of Directors (BOD) approved the amendment of the Company's primary and secondary purpose from operating as a leasing and financing entity, which provides direct leases, sale and leaseback arrangements and real estate leases to operate as a listed holding company that invest in, purchase, acquire or own, hold, use, sell, assign, transfer mortgage, pledge, exchange, or dispose real and personal property of every kind. On July 21, 2020, the stockholders approved the amendments. On March 01, 2022, the Company's BOD approved the amendment of the Company's name to Dominion Holdings, Inc., the same was approved by the stockholders on April 20, 2022. On June 9, 2022, the Company filed with the Securities and Exchange Commission (SEC) its application to amend the Company's article of incorporation's first and second article, which was subsequently approved by the SEC on July 18, 2022.

The Company is a subsidiary of BDO Unibank, Inc. (BDO Unibank or Parent Company), a universal bank incorporated and doing business in the Philippines. BDO Unibank offers a wide range of banking services such as traditional loan and deposit products, as well as treasury, remittance, trade services, credit card services, trust and others.

As a subsidiary of BDO Unibank, Bangko Sentral ng Pilipinas (BSP) has the authority to examine the Company, when examining the Bank, as it is majority-owned by the Bank. Although the Company is no longer considered a BSP-supervised financial institution, the Company aligns with BSP's regulations, where applicable, as a subsidiary of a bank and as a good corporate governance practice.

The Company's principal office is located at 39th Floor, BDO Corporate Center Ortigas, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

1.2 Approval of Financial Statements

The accompanying financial statements of the Company for the year ended December 31, 2023 (including the comparative financial statements as of December 31, 2022 and for the years ended December 31, 2022 and 2021) were authorized for issue by the Company's BOD on February 21, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 *Basis of Preparation of Financial Statements*

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents a statement of comprehensive income separate from the statement of income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using the functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of Amended PFRS

(a) Effective in 2023 that are Relevant to the Company

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments)	:	Presentation of Financial Statements – Disclosure of Accounting Policies
PAS 8 (Amendments)	:	Definition of Accounting Estimates
PFRS 12 (Amendments)	:	Deferred Tax Related to Assets and Liabilities from a Single Transaction

Discussed below are the relevant information about these pronouncements.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Company's financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Company's financial statements.

(b) *Effective in 2023 that is not Relevant to the Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Company's financial statements.

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)
- (iii) PAS 7 (Amendments), *Cash Flow Statements and PFRS 7 (Amendments), Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

2.3 Financial Instruments

(a) *Classification, Measurement and Reclassification of Financial Assets*

The Company's financial assets include financial assets at amortized cost and at fair value through other comprehensive income.

(i) *Financial Assets at Amortized Cost*

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents and Money Market Placements. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash. Money market placements include short-term investment with original maturity of more than 90 days.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as fair value through profit or loss (FVTPL). The Company has debt securities classified as at FVOCI as at the end of the reporting period.

(b) *Effective Interest Rate Method and Interest Income*

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and interest-bearing financial instruments at FVOCI. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the financial instrument. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the statement of financial position with an increase (reduction) in Interest income. The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.3(c)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted EIR to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(c) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. The Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default (PD) of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). When there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). A lifetime ECL shall also be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Company's definition of credit risk, information on how credit risk is mitigated by the Company and detailed ECL measurement, as determined by the management, are disclosed in Note 4.2.

(d) Classification and Measurement of Financial Liabilities

Financial liabilities pertain to accounts payable and other liabilities (except tax-related payables). All interest-related charges are included as part of Interest and Financing Charges under Operating Costs and Expenses in the statement of income.

2.4 Other Income and Expense Recognition

A contract with a customer that results in a recognized financial instrument in the Company's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues from Contracts with Customers*. In such case, the Company first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then apply PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgements and estimates that affect the amounts reported in the financial statements and related notes. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgements in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Evaluation of Business Model Applied in Managing Financial Instruments*

The Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument, or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made from portfolio of financial assets carried at amortized cost, if any, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

3.2 Key Source of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and debt instruments classified as financial assets at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

(b) *Fair Value Measurement for Financial Instruments*

The Company holds debt securities presented as Financial Assets at FVOCI whose fair values are based on quoted market prices.

The carrying values of the Company's financial assets at FVOCI and the amounts of fair value changes recognized during the year on those assets are disclosed in Note 7.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Company will pursue its strategy and business plans to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its regulators.

The Company believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Company is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Company's goal is to remain a strong company that is resilient to possible adverse events. Hence, the Company ensures:

- strong financial position by maintaining adequate capital ratios;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

Risk management begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

4.1 Interest Rate Risk

On December 31, 2023 and 2022, the Company has no material exposure to changes in interest rates since all financial assets and financial liabilities have fixed rates.

4.2 Credit Risk

As of December 31, 2023, the Company's financial assets that are subject to credit risk are related only to cash and cash equivalents, short-term investments presented as Money Market Placement and debt securities presented as Financial Assets at FVOCI. In general, the Company regularly monitors the credit quality of these financial assets and incorporates this information into its credit risk controls and policies.

4.2.1 Credit Quality Analysis

In 2023 and 2022, the Company has no financial instruments that are purchased or originated credit impaired assets.

As of December 31, 2023 and 2022, the Company held Cash and cash equivalents, Money market placements and Financial assets at FVOCI which are all in Stage 1 (see Notes 6 and 7).

The credit risk for Company's financial assets are presented in Note 4.2.3(c).

4.2.2 Concentrations of Credit Risk

The Company monitors concentrations of credit risk by sector and by geographic location which are all in the financial sector in the Philippines. The Company's concentrations of credit risk (net of allowance) at the reporting date pertains to cash and cash equivalents and money market placement amounting to P7,785,645 and P3,941,346,704, respectively, in 2023, and P14,733,014 and P5,955,382,215, respectively, in 2022, and debt investment securities at FVOCI amounting to P2,306,560,507 in 2023.

4.2.3 Amounts Arising from Expected Credit Losses

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stage 1 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using PD, loss given default (LGD) and exposure at default (EAD).

(a) *Significant Increase in Credit Risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment.

(i) *Credit Risk Grading*

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference in the PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

The Company's financial assets at FVOCI are graded BBB+ to BBB- as of December 31, 2023.

(ii) *Generating the Term Structure of PD*

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used. The Company employs statistical models to analyze the data collected and generate the term structure of PD estimates.

(iii) Determining Whether Credit Risk has Significantly Increased

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Company. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Company's risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as net loss, significant drop in risk ratings, and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

(b) Forward-looking Information

The Company incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The relevant macro-economic variables for selection generally include, but are not limited to, gross domestic product growth rate, unemployment rate, inflation rate, foreign exchange rates, stock market index, oil prices and interest rates.

The significance of the selected macro-economic variables as predictors of default may change over time as historical information is added. As such, the generated macroeconomic models are updated at least on an annual basis. Management has also considered other FLIs not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

(c) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed in Note 4.2.3(a)(ii) under the heading "Generating the term structure of PD".

LGD is the magnitude of the likely loss if there is a default. The Company adopted the foundation internal ratings-based approach wherein senior claims on sovereigns, banks, securities firms and other financial institutions that are not secured by recognized collateral will be assigned a 45% LGD.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Company has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

The following table sets out the gross carrying amounts and allowance for ECL of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31:

	Notes	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	6	P 7,796,103	P 14,740,093
Allowance for ECL	6	(10,458)	(7,079)
		<u>P 7,785,645</u>	<u>P 14,733,014</u>
Money market placement	6	P 3,946,640,877	P 5,958,174,812
Allowance for ECL	6	(5,294,173)	(2,792,597)
		<u>P 3,941,346,704</u>	<u>P 5,955,382,215</u>
Debt securities at FVOCI	7	P 2,310,190,913	P -
Allowance for ECL (OCI)	7	(3,630,406)	-
		<u>P 2,306,560,507</u>	<u>P -</u>

4.2.4 *Liquidity Risk*

Liquidity risk is the risk that there could be insufficient funds available to fulfill commitments to lend, or to meet any other liquidity commitments. The Company manages its liquidity needs by holding sufficient liquid assets of appropriate quality to meet funding requirements, manage and control liquidity gaps through Maximum Cumulative Outflow (MCO) limits, regular liquidity stress testing to ensure positive cashflow across all identified stress scenarios, and establishment of a Liquidity Contingency Plan, to ensure adequate liquidity under both business-as-usual and stress conditions. The Company carefully monitors scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in its day-to-day activities.

Presented below are the financial assets and financial liabilities as of December 31, 2023 and 2022 analyzed according to when these are expected to be recovered or settled.

	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>Total</u>
<u>2023</u>			
Financial assets			
Cash and cash equivalents	P 7,785,645	P -	P 7,785,645
Money market placements	2,130,892,960	1,810,453,744	3,941,346,704
Financial assets at FVOCI	<u>1,206,901,967</u>	<u>1,099,658,540</u>	<u>2,306,560,507</u>
	<u>P3,345,580,572</u>	<u>P 2,910,112,284</u>	<u>P6,255,692,856</u>
Financial liabilities			
Accounts payable and other liabilities	<u>P 10,522,280</u>	<u>P -</u>	<u>P 10,522,280</u>
<u>2022</u>			
Financial assets			
Cash and cash equivalents	P 14,733,014	P -	P 14,733,014
Money market placements	<u>5,955,382,215</u>	<u>-</u>	<u>5,955,382,215</u>
	<u>P5,970,115,229</u>	<u>P -</u>	<u>P5,970,115,229</u>
Financial liabilities			
Accounts payable and other liabilities	<u>P 9,657,685</u>	<u>P -</u>	<u>P 9,657,685</u>

4.2.5 *Write-offs*

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Company's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The Company still have enforceable right to receive payment even if the financial assets have been written off except in certain cases.

4.3 Price Risk

In 2022, the Company redeemed all of its investment in unit investment trust fund (UITF). As of December 31, 2023, the Company is not exposed to equity securities price risk since the Company holds no investments in equity securities classified as financial assets at FVTPL or financial assets at FVOCI.

The following table sets forth the sensitivity of the Company's other comprehensive income in 2023 to reasonable possible changes in quoted prices of financial assets at FVOCI with all other variables held constant:

Change in interest rates (in basis points)	+100	-100
Net unrealized fair value gains (losses) on debt securities at FVOCI	P <u>23,000,000</u>	(P <u>23,000,000</u>)
Total impact on other comprehensive income	P <u>23,000,000</u>	(P <u>23,000,000</u>)

The sensitivity is calculated by revaluing financial assets at FVOCI at the reporting date for the effects of the assumed changes in quoted prices.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

In 2023, the Company has financial assets at FVOCI which have fair values equal to its carrying amounts as at December 31, 2023. The Company has no other financial assets carried at fair value.

For the Company's financial assets and financial liabilities carried at amortized cost as at December 31, 2023 and 2022, management has determined that their carrying amounts are equal to or approximately their fair values.

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are as follows:

(i) *Cash and Cash Equivalents and Money Market Placement*

The fair values of cash and cash equivalents and money market placement approximate carrying amounts given their short-term maturities.

(ii) *Financial Assets at FVOCI*

The fair value of financial assets at FVOCI which is related to corporate bonds is determined by direct reference to published price quoted in the Philippine Dealing and Exchange Corporation.

(iii) *Accounts Payable and Other Liabilities*

Fair values approximate carrying amounts given the short-term maturities of the liabilities.

5.2 Fair Value Measurement and Disclosures

5.2.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

5.2.2 Financial Instrument Measured at Fair Value

The Company acquired fixed rate bonds classified as financial assets at FVOCI as of December 31, 2023 and are carried at Level 1. The fair value of financial assets at FVOCI which is related to corporate bonds is determined by direct reference to published price quoted in the Philippine Dealing and Exchange Corporation.

The Company has no financial instruments measured at fair value as of December 31, 2022.

There were neither transfers made between Levels 1 and 2 nor changes in Level 3 instruments in both years.

5.2.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The following summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	<u>Notes</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2023</u>				
Financial assets:				
Cash and cash equivalents	6	P 7,785,645	P -	P 7,785,645
Money market placement	6	<u>3,941,346,704</u>	<u>-</u>	<u>3,941,346,704</u>
		<u>P 3,949,132,349</u>	<u>P -</u>	<u>P 3,949,132,349</u>
Financial liabilities –				
Accounts payable and other liabilities	8	<u>P -</u>	<u>P 10,522,280</u>	<u>P 10,522,280</u>
<u>December 31, 2022</u>				
Financial assets:				
Cash and cash equivalents	6	P 14,733,014	P -	P 14,733,014
Money market placement	6	<u>5,955,382,215</u>	<u>-</u>	<u>5,955,382,215</u>
		<u>P 5,970,115,229</u>	<u>P -</u>	<u>P 5,970,115,229</u>
Financial liabilities –				
Accounts payable and other liabilities	8	<u>P -</u>	<u>P 9,657,685</u>	<u>P 9,657,685</u>

There have been no significant transfers between Levels 1 and 2 in the reporting periods.

Summarized below are the information on how the fair values of the Company's financial assets and financial liabilities are determined.

(a) *Financial Instruments in Level 1*

Cash and cash equivalents consist primarily of funds in the form of Philippine currency notes and coins held in the Company's bank. Money market placements include short-term investments with original maturity of more than 90 days. Carrying amounts approximate the fair values given the relatively short-term maturities of these instruments.

(b) *Financial Instruments in Level 3*

The Company classifies financial instruments such as Accounts payable and other receivables, have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

5.2.4 Fair Value Measurement for Non-Financial Assets

As of December 31, 2023 and 2022, the Company's non-financial asset pertains to creditable withholding taxes which is measured under Level 3.

5.3 Offsetting of Financial Instruments

Currently, all financial assets and financial liabilities are settled on a gross basis; however, each party will have the option to settle such amount on a net basis in the event of default of the other party. As such, as of December 31, 2023 and 2022, the Company has no financial assets and liabilities with offsetting arrangement.

6. CASH AND CASH EQUIVALENTS AND MONEY MARKET PLACEMENTS

Cash and cash equivalents include the following components as of December 31:

	Note	<u>2023</u>	<u>2022</u>
Cash in banks	11(a)	P 1,488,858	P 4,657,774
Short-term placements	11(a)	<u>6,307,245</u>	<u>10,082,319</u>
		7,796,103	14,740,093
Allowance for ECL		<u>(10,458)</u>	<u>(7,079)</u>
		<u>P 7,785,645</u>	<u>P 14,733,014</u>

Cash in banks earn interest at rates based on daily bank deposit rate of 0.06% in 2023, 2022 and 2021.

Short-term placements are made for varying periods of 31 days to 143 days in 2023, 67 days to 97 days in 2022 and nil in 2021, and earn interest at annual rate of 5.75% to 6.40% in 2023, 4.75% in 2022 and nil in 2021 (see Note 11).

Interest receivables amounting to P31,098,122 and P50,564,515 as of December 31, 2023 and 2022, respectively, is presented as part of Cash and Cash Equivalents and Money Market Placement in the statements of financial position.

The total interest income earned from cash in banks and short-term placements amounted to P117,609,860, P63,246,030 and P30,666 in 2023, 2022 and 2021, respectively, in the Company's statements of income.

The Company recognized impairment loss on cash and cash equivalents amounting to P3,379, P7,079 and nil in 2023, 2022 and 2021, respectively, which is presented as part of Impairment and credit losses account under Operating Costs and Expenses in the statements of income.

Short-term placements as of December 31, 2023 and 2022 are presented in the statements of financial position as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents:		
Gross carrying amount	P 6,307,245	P 10,082,319
Allowance for ECL	(8,461)	(4,896)
	<u>6,298,784</u>	<u>10,077,423</u>
Money market placements:		
Gross carrying amount	3,946,640,877	5,958,174,812
Allowance for ECL	(5,294,173)	(2,792,597)
	<u>3,941,346,704</u>	<u>5,955,382,215</u>
	<u>P 3,947,645,488</u>	<u>P 5,965,459,638</u>

The reconciliation of the carrying amounts of the money market placements are as follows:

	<u>2023</u>	<u>2022</u>
Balance at the beginning of year	P 5,955,382,215	P -
Maturities	(5,907,664,283)	-
Placements	3,915,550,000	5,907,664,283
Collections of accrued interest income	(50,510,529)	-
Accrued interest income	31,090,877	50,510,529
Impairment loss	(2,501,576)	(2,792,597)
	<u>P 3,941,346,704</u>	<u>P 5,955,382,215</u>

The Company recognized impairment loss on money market placements amounting to P2,501,576, P2,792,597 and nil in 2023, 2022 and 2021, respectively, which is presented as part of Impairment and credit losses account under Operating Costs and Expenses in the statements of income.

7. FINANCIAL ASSETS AT FVTPL AND FVOCI

In 2021, the Company purchased P70,000,000 worth of UITF securities from BDO Unibank's Trust & Investment Group (BDO TIG) which were classified as financial assets as at FVTPL. Unrealized fair value gain on UITF amounted to P54,997,429 for the year ended 2021 and is presented under Income in the 2021 statement of income.

In 2022, the Company redeemed all its remaining UITF resulting in a gain on redemption amounting to P62,625,034, is presented under Income in the 2022 statement of income (see Note 11).

In 2023, the Company invested P6,020,004,237 in UITF with a term of one day and was redeemed resulting in a gain on redemption of P1,048,999 presented under Income in the 2023 statement of income. The proceeds were reinvested in various debt securities (bonds) at a discount amounting to P6,006,005,297 and were classified as FVOCI.

On September 30, 2023 and December 9, 2023, Rizal Commercial Banking Corporation (RCBC) and Union Bank of the Philippines Fixed Rate Bonds matured amounting to P2,021,610,000 and P1,800,000,000, respectively, at face value.

The composition of financial assets at FVOCI (debt securities) of the Company as of December 31, 2023 pertains to the following:

Security Bank Corporation fixed rate bonds	P 1,200,000,000
RCBC fixed rate bonds	<u>1,100,000,000</u>
	2,300,000,000
Unamortized discount	(13,405,342)
Unrealized fair value gains	10,123,209
Accrued interest receivable	<u>9,842,640</u>
	<u>P 2,306,560,507</u>

A reconciliation of the carrying amounts of financial assets at FVOCI in 2023 is as follows:

Acquisitions	P 6,006,005,297
Disposals	(3,821,610,000)
Amortization of discount	102,199,361
Unrealized fair value gains	10,123,209
Accrued interest income	<u>9,842,640</u>
	<u>P 2,306,560,507</u>

Financial assets at FVOCI earn interest at fixed rates of 2.75% to 3.74% in 2023 with an original term of 1.5 to 3 years. The total interest income earned amounted to P225,064,699 in 2023 in the Company's statement of income.

The Company recognized fair value gains on financial assets at FVOCI amounting to P10,123,209 in 2023. The fair values of these financial assets have been determined based on quoted prices in active markets (see Note 5).

In 2023, the Company recognized impairment loss on financial assets at FVOCI amounting to P3,630,406, which is presented as part of Impairment and credit losses account under Operating Costs and Expenses in the 2023 statement of income and is added to the fair value gains on debt instruments at FVOCI under items that are reclassified subsequently to profit or loss in the 2023 statement of comprehensive income.

In 2023, the Company reclassified its cash flows from placements and redemptions of UITF from investing activities to operating activities in the 2022 and 2021 statements of cash flows following the change in its business purpose to a holding company in 2022.

8. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

	<u>2023</u>	<u>2022</u>
Accounts payable	P 10,522,280	P 9,657,685
Withholding taxes payable	132,823	85,362
Accrued taxes and other expenses	<u>-</u>	<u>6,363,351</u>
	<u>P 10,655,103</u>	<u>P 16,106,398</u>

Accrued taxes pertains to accrual of taxes on interest income earned on short-term placements.

9. EQUITY

9.1 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are:

- to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and,
- to ensure the Company's ability to continue as a going concern.

The Company sets the amount of capital in proportion to its overall financing structure and the Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's capital and overall financing as of December 31, 2023 and 2022 are shown below.

	<u>2023</u>	<u>2022</u>
Total equity	P 6,369,899,523	P 6,081,395,478
Cash and cash equivalents	(7,785,645)	(14,733,014)
Money market placements - net	(3,941,346,704)	(5,955,382,215)
Net capital	<u>P 2,420,767,174</u>	<u>P 111,280,249</u>
Overall financing (total equity)	<u>P 6,369,899,523</u>	<u>P 6,081,395,478</u>
Capital-to-overall financing ratio	<u>0.38 : 1.00</u>	<u>0.02 : 1.00</u>

As of December 31, 2023 and 2022, the Company complies with this minimum paid-up capital requirement.

9.2 Preferred Shares

The Company has 200,000 authorized preferred shares at P100 par value a share with the following features:

- (a) Issued serially in blocks of not less than 100,000 shares;
- (b) No pre-emptive rights to any or all issues on other disposition of preferred shares;
- (c) Entitled to cumulative dividends at a rate not higher than 20% yearly;
- (d) Subject to call or with rights for their redemption, either mandatory at a fixed or determinable date after issue; and,
- (e) Non-voting, except in cases expressly provided for by law.

None of these authorized preferred shares have been issued as of December 31, 2023 and 2022.

9.3 Common Shares

As of December 31, 2023 and 2022, out of the total authorized capital stock of 3,400,000,000 common shares with par value of P1.00 per share, 2,162,475,312 common shares, net of treasury shares of 62,693,718 are issued and outstanding.

9.4 Retained Earnings – Free

The Company's retained earnings are restricted to the extent of the cost of the treasury shares amounting to P81,776,628 as of the end of the reporting periods.

As at December 31, 2023 and 2022, the Company's unappropriated retained earnings exceeded its paid-in capital. Relative to this, the Company plans to declare dividends in 2024 subject to approval of the BOD.

9.5 Track Record of Registration of Securities

On January 6, 1997, the Company was listed with the PSE with 106,100,000 additional common shares and 15,120,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC in May 1996. As of December 31, 2023, the Company's number of shares registered totaled 3,400,000,000 with par value of P1.00 per share and closed at a price of P3.16 in 2020.

On January 27, 2020, the PSE approved the request of the Company for the voluntary trading suspension of its shares. This is to allow the investing public an equal access to the information about the Share Purchase Agreement entered by BDO Unibank on January 24, 2020 for making informed decisions.

As of December 31, 2023, the trading of the Company's shares remains suspended due to the Order of Suspension issued by the SEC requiring amendment of Company's registration statement. The Company has since engaged the SEC on its requirements to lift the suspension order and the matter is still pending resolution as of date of release of the 2023 financial statements.

10. OTHER INCOME

In 2022, the Company reported bad debts recovery amounting to P950,000 and miscellaneous income amounting to P4,650. In 2021, the Company reported the realized foreign exchange translation gain amounting to P1,550,970, realized gain on sale of dollar-denominated currency amounting to P310,681 (see Note 11), and miscellaneous income amounting to P207,358. There were no similar transactions in 2023.

11. RELATED PARTY TRANSACTIONS

The Company's related parties are BDO Unibank, BDO TIG and BDO Finance Corporation (BDOFC) as described below.

The summary of the Company's significant transactions with its related parties in 2023, 2022 and 2021 are as follows:

<u>Related Party Category</u>	<u>Notes</u>	<u>Amount of Transaction</u>		
		<u>2023</u>	<u>2022</u>	<u>2021</u>
Ultimate parent company				
(BDO Unibank)				
UITF redemption	(c)	P 6,021,053,236	P 5,927,789,668	P -
UITF placement	(c)	6,020,004,237	-	70,000,000
Interest income on short-term placements	(a)	77,869,196	63,241,061	-
Trust fees	(d)	3,591,034	-	-
Realized fair value gains	(c)	1,048,999	62,625,034	-
Service fees	(b)	360,250	302,100	124,900
Interest income on savings and demand deposits	(a)	9,385	4,969	30,666
Unrealized fair value gains	(c)	-	-	54,997,429
Realized gain on dollar-denominated cash deposits	(f)	-	-	310,681
Related party under common				
Ownership (BDOFC)				
Management fees	(e)	336,000	-	-

Below is the summary of the outstanding balances with each related party as of December 31, 2023 and 2022.

<u>Related Party Category</u>	<u>Notes</u>	<u>Outstanding Balance</u>	
		<u>2023</u>	<u>2022</u>
Ultimate parent company			
(BDO Unibank)			
Short-term placements	(a)	P 6,300,000	P 5,917,692,616
Savings and demand deposits	(a)	1,488,858	4,657,774
Accrued interest receivables on short-term placements	(a)	7,245	50,564,515

(a) The Company maintains savings and demand deposit and short-term placement accounts with BDO Unibank. As of December 31, 2023 and 2022, savings and demand deposit and short-term placements accounts maintained with BDO Unibank are included under Cash and Cash Equivalents and Money Market Placement account in the statements of financial position (see Note 6). The savings and demand deposits generally earn interest at annual rate of 0.06% in 2023, 2022 and 2021 and short-term placements earn interest at an effective rate of 5.75% in 2023 and 4.75% in 2022. Interest income earned on these deposits is reported as Interests and discounts account in the statements of income.

- (b) The Company entered into an agreement with BDO Unibank on stock transfer services. Service fees paid by the Company to BDO Unibank are shown as part of Other Expenses account under Operating Costs and Expenses in the statements of income. There were no outstanding receivable and payable on these transactions as of December 31, 2023 and 2022.
- (c) In 2021, the Company purchased UITF amounting to P70,000,000 from BDO TIG and recognized unrealized fair value gain of P54,997,429 presented under Income in the 2021 statement of income. In 2022, the Company redeemed all its remaining UITF resulting in realized fair value gains amounting to P62,625,034. In April 2023, the Company purchased and redeemed UITF amounting to P6,020,004,237 which resulted to a realized fair value gains amounted to P1,048,999. Realized fair value gains are presented under Income in the 2023 statement of income (see Note 7).
- (d) In April 2023, the Company entered into an investment management agreement with BDO TIG for services related to the Company's fund management. Fees paid by the Company to BDO-TIG is reported as Trust Fees account under Operating Costs and Expenses in the 2023 statement of income.
- (e) In May 2023, the Company entered into a service level agreement with BDOFC wherein BDOFC will charge the Company for certain management services that the former provides to the latter. Management fees paid by the Company to BDOFC are shown as part of Other Expenses account under Operating Costs and Expenses in the 2023 statement of income. There was no outstanding payable arising from this transaction in 2023. No similar transaction transpired in 2022 and 2021.
- (f) In 2021, the Company sold dollar-denominated cash deposits amounting to USD 796,619 at P50.36 exchange rate (Php40,117,733) to BDO Unibank. This transaction resulted in a realized gain of P310,681 and is recorded as part of Other income account in the 2021 statement of income (see Note 10). No similar transaction transpired in 2023 and 2022.

12. TAXES

12.1 Taxes and Licenses

This account is composed of the following:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Local tax	P 799,002	P 3,457	P 9,961,872
Documentary stamp tax	6,917	149,790	520,470
Gross receipt tax	-	6,672,544	29,089
Others	<u>824,205</u>	<u>840,204</u>	<u>877,531</u>
	<u>P 1,630,124</u>	<u>P 7,665,995</u>	<u>P 11,388,962</u>

12.2 Current and Deferred Taxes

On March 26, 2021, Republic Act (R.A.) No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company.

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

The components of tax expense (income) for the years ended December 31 follow:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>Reported in statements of income</i>			
Current tax expense (income):			
Final tax at 20%	P 48,329,174	P 25,174,213	P 5,574
Adjustment in 2020 income taxes due to change in income tax rate	-	-	(5,726,192)
MCIT at 1.5% in 2023; 1% in 2022 and 2021	<u>-</u>	<u>9,547</u>	<u>20,690</u>
	<u>P 48,329,174</u>	<u>P 25,183,760</u>	<u>(P 5,699,928)</u>
<i>Reported in statements of comprehensive income</i>			
Deferred tax expense on –			
Unrealized fair value gains on financial assets at FVOCI	<u>P 2,530,802</u>	<u>P -</u>	<u>P -</u>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Tax on pretax profit at 25%	P 81,402,602	P 23,611,744	P 9,460,373
Adjustment for income subjected to lower tax rate	(37,601,716)	(6,293,553)	(2,092)
Adjustment in 2020 income taxes due to change in income tax rate.	-	-	(5,726,192)
Tax effects of:			
Unrecognized deferred tax assets on:			
Net operating loss carry-over (NOLCO)	2,975,581	3,729,610	3,727,677
MCIT	-	9,547	20,690
Non-deductible expense	1,552,707	4,126,412	568,973
Non-taxable income	<u>-</u>	<u>-</u>	<u>(13,749,357)</u>
	<u>P 48,329,174</u>	<u>P 25,183,760</u>	<u>(P 5,699,928)</u>

The Company is subject to MCIT, which is computed at 1.5% of gross income in 2023 and 1% of gross income in 2022 and 2021, as defined under tax regulations or RCIT, whichever is higher. In 2023, 2022 and 2021, the Company claimed itemized deductions in computing for its income tax due.

In 2023 and prior years, the Company has not recognized deferred tax assets on certain temporary differences, NOLCO and other tax credits since management believes that the future income tax benefits will not be realized within the availment period, as defined under the tax regulations. In 2023, the Company recognized deferred tax liability on unrealized fair value gains on financial assets at FVOCI (see Note 7).

Presented below are the details of the Company's remaining NOLCO, which can be claimed as deductions from taxable income within three to five years from the year the tax loss is incurred. Specifically, NOLCO incurred in 2021 and 2020 can be claimed as a deductions from the gross income until 2025 and 2026, respectively in accordance with the R.A. No. 11494, *Bayaniban to Recover as One Act*. In 2022, the NOLCO period is reverted back to within three years from the year the tax loss was incurred.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Applied Amount</u>	<u>Expired Amount</u>	<u>Remaining Amount</u>	<u>Valid Until</u>
2023	P 11,902,324	P -	P -	P 11,902,324	2026
2022	14,918,441	-	-	14,918,441	2025
2021	14,910,709	-	-	14,910,709	2026
2020	<u>172,289,847</u>	<u>-</u>	<u>-</u>	<u>172,289,847</u>	2025
	<u>P 214,021,321</u>	<u>P -</u>	<u>P -</u>	<u>P 214,021,321</u>	

Presented below are the details of the Company's remaining MCIT for the years 2022, 2021 and 2020.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Applied Amount</u>	<u>Expired Amount</u>	<u>Remaining Amount</u>	<u>Valid Until</u>
2022	P 9,547	P -	P -	P 9,547	2025
2021	20,690	-	-	20,690	2024
2020	<u>17,027,786</u>	<u>-</u>	<u>(17,027,786)</u>	<u>-</u>	2023
	<u>P 17,058,023</u>	<u>P -</u>	<u>(P 17,027,786)</u>	<u>P 30,237</u>	

12.3 Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

The Bureau of Internal Revenue (BIR) issued RR No. 15-2010 which required certain supplementary information to be disclosed as part of the notes to financial statements. The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Company presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

13. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net profit	P 277,281,232	P 69,263,216	P 43,541,418
Divided by the weighted average number of outstanding common shares – net*	<u>2,162,475,312</u>	<u>2,162,475,312</u>	<u>2,162,475,312</u>
Basic earnings per share	<u>P 0.13</u>	<u>P 0.03</u>	<u>P 0.02</u>

* net of treasury shares

There were no outstanding dilutive potential common shares as of December 31, 2023, 2022 and 2021.

14. CONTINGENT LIABILITIES AND COMMITMENTS

In the ordinary course of business, the Company incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As of December 31, 2023, management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Company's financial position and results of operations.

15. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Except for the Company's deferred tax liability, all assets and liabilities as of December 31, 2023 and 2022 have contractual maturity and settlement dates of within one year.